# British budget hits workers and poor

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The Conservative/Liberal Democrat coalition's emergency budget will hit the poorest members of society hardest. Chancellor George Osborne wrapped his measures in rhetoric about fairness and burden sharing, but this was a budget for the rich.

Osborne announced a total of £11 billion in cuts to welfare spending. In addition, Value Added Tax (VAT) will go up from its present 17.5 percent level to 20 percent, raising a further £13 billion. VAT is a regressive sales tax that inevitably hits the lowest paid most heavily.

Overall the budget aims to raise £40 billion. Most of this will come from cuts to public spending. This unprecedented attack on the welfare state is the price of the bank bailout, which saw the Labour government come to the rescue of financial institutions that had bankrupted themselves through their own speculative frenzy.

Osborne set out plans to entirely eliminate the UK's record £155 billion deficit within the five-year lifetime of this parliament. Achieving this target will mean five years of austerity involving cuts in welfare benefits, public services, jobs, pay and pensions.

"This is an unavoidable budget," Osborne said in the run-up to the announcement. Last week the credit rating agency Fitch warned that Britain needed to speed up its deficit reduction strategy to avoid the risk of sovereign downgrade escalating. "[B]oth the size of the deficit currently projected for 2011 and the failure to reduce the deficit to 3 percent of GDP within five years are striking," Fitch commented.

Osborne and his Liberal Democrat coalition partners have responded to the demands of the financial elite with a budget that will transfer money from the majority of the population to the wealthy elite. "I want a sign to go up over the British economy saying 'open for business'", Osborne told Parliament.

Corporation Tax is to be cut from its present level of 28 percent to 24 percent. This will give the UK the lowest level of corporate taxation in any developed economy. National Insurance contributions paid by employers will be cut for lower paid workers. This too will shift more of the cost of the welfare state onto workers. Small companies will receive extra tax benefits. "Manufacturing as a whole will pay less tax", Osborne assured business.

While the banking sector will have to pay a bank levy on financial transactions, this will easily be offset by the cut in corporation tax.

Capital Gains Tax is to go up from 18 percent to 28 percent. But this will have a bigger effect on individuals who have invested in property as a means of providing themselves with a pension. Major corporations and the rich have been exploring ways of avoiding this increase, which was long expected.

The public sector faces cuts of over £100 billion over the next five years. Osborne announced that public spending will rise, but this is entirely accounted for by debt repayments. Labour already planned to cut 20 percent across the board from all government departments. Osborne plans to go further. He announced a 25 percent cut in public spending. Health, defence and overseas aid spending would be exempt, he said, meaning that other departments would have to make bigger cuts.

This does not mean that the National Health Service will be protected from cuts. "Efficiency savings" announced by the previous government are already working their way through the system. On top of that the coalition government introduced a £6 billion package of cuts when it came into office.

Osborne's budget, grim though it is, does not tell the full story. A comprehensive spending review will introduce further cuts in the autumn.

Many of the implications of the cuts will be hidden from public scrutiny in an attempt to dissipate opposition and prevent nationwide opposition from developing. They are being devolved to local government, regional government, Health Trusts and universities.

Osborne announced a series of cuts to welfare provision. Child Benefit, one of the few remaining universal benefits, will be frozen for three years. The Child Tax Credits system, which Osborne described as "unsustainable", is to be revised. Payments to families collectively earning just £40,000 a year will be restricted.

The planned rise in state pension age to 66 will be accelerated. The state pension and state pension credit will in future be uprated in line with the Consumer Price Index (CPI) and not the Retail Price Index (RPI). Since the RPI is usually higher than the CPI, this will save the government £11 billion.

Osborne announced cuts to a number of benefits. One of the main targets was the Disability Living Allowance, which allows disabled people to live in their own homes and continue to work. This is a benefit that already has stringent criteria and is notoriously hard to access. Osborne aims to save 10 percent of its current budget by imposing a stricter medical assessment on claimants.

Housing Benefit costs, Osborne claimed, were "completely out of control". The government would restrict access to this benefit, which allows those on low incomes to rent homes.

Some issues were deferred, indicating that this budget is not the sum total of the attacks to come.

Public sector pensions are to be reviewed by a commission under the chairmanship of John Hutton, who was work and pensions secretary under Labour. The choice of Hutton points to the continuity between this government and its predecessor. Public sector pay will be reviewed by another commission under the hitherto Labour-supporting economist, Will Hutton. But Osborne announced a two-year pay freeze for public sector workers, with the exception of those on less than £21,000 per annum who will get a £250 flat rate pay rise in both these years.

Public sector workers will bear the brunt of the coalition's fiscal policies, whether in the form of job losses, pay cuts, loss of pension rights or privatisation. Osborne indicated that the government intended to go ahead with a number of privatisations, including the student loan book, air traffic control, the Tote (state-run gambling) and the Royal Mail.

One of the new features of this budget was the role of the Office of Budgetary Responsibility (OBR), which the coalition has just set up. The OBR is an unelected body that has the job of determining government economic and fiscal policy in the same way that the unelected Bank of England determines government monetary policy.

The scale of the budget cuts has put strain on the coalition. Nick Clegg, the Liberal Democrat deputy prime minister, wrote to all his party members the night before the budget telling them that the austerity measures were necessary to prevent Britain becoming "another Greece". His aim was to head off protests from his own supporters.

During the election a Liberal Democrat poster had warned of a Tory VAT bombshell. Now Clegg is part of the government that has implemented a massive hike in VAT and imposed cuts in government spending that he previously warned would lead to a double-dip recession.

Clegg denied that he had "sold out". "We have always argued that cuts would be necessary, but the timing should be based on economic circumstances, not political dogma", he said. "The economic situation today means that time has come."

The Tories are scarcely in a stronger position. Prime Minister David Cameron claimed they had no plans to raise VAT throughout the election campaign. Inevitably, the tax rise will hit shops and other businesses that are already struggling under the impact of the recession. A government that came to power with little popular support is in danger of rapidly losing what little political capital it had.

Osborne offered a token cut in income tax in an effort to elicit some popular support for the coalition. The tax threshold will be raised by £1,000 to £7,475 and there will be a £200 tax cut for basic rate taxpayers. On the face of it this will benefit more than 1 million people. But the impact of the measures is in fact very limited. People earning minimum wage will still be paying tax, while the VAT rise and the cuts to other benefits wipe out any gains.

This budget foreshadows immense class struggles as the welfare state concessions of the post-war period come under systematic attack from a financial oligarchy that is no longer prepared to tolerate any diminution of its profits.